



From the Desk
of the
Chief Economist

BANK ISLAM

GDP PREVIEW – ECONOMIC GROWTH TO EXPAND BY 4.3% IN 1Q2022

12 MAY 2022

ECONOMIC RESEARCH

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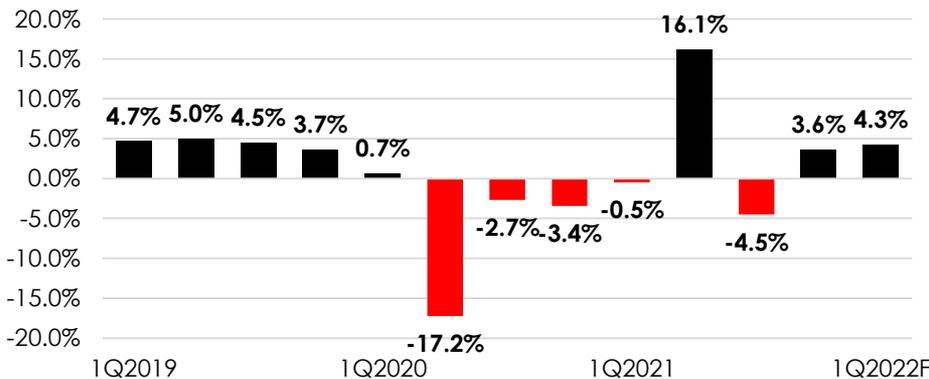
SHAFIZ JAMALUDDIN

NOR JANNAH ABDULLAH

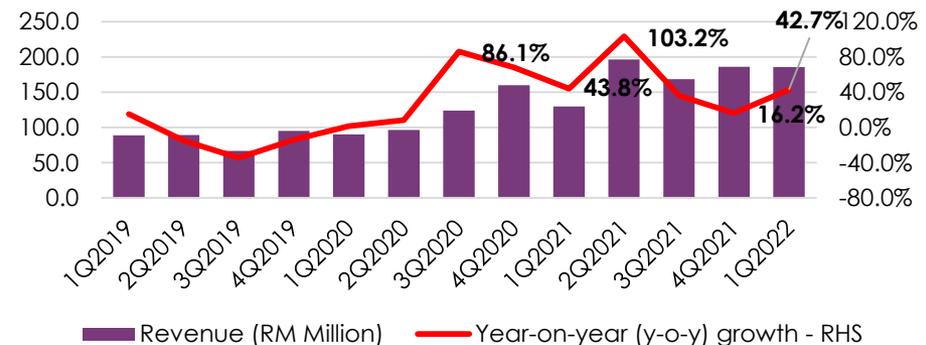
RAJA ADIBAH RAJA HASNAN

- ✓ Malaysia's Gross Domestic Product (GDP) for the first quarter of 2022 will be published on 13 May 2022. **We are projecting the 1Q2022 GDP growth to come in at 4.3% year-on-year (y-o-y) after rising by 3.6% in the previous quarter.** This will be the second consecutive quarter of gains following the ease of containment measures due to the global pandemic.
- ✓ The sustained double-digit growth in the external trade activities (1Q2022: 22.2% vs. 4Q2021: 29.0%) would be the main driver of the economic expansion in the first quarter due to the positive improvement in the global recovery.
- ✓ In light of this, the Electrical & Electronic (E&E) segment continued as a bellwether in the manufacturing sector due to the concern arising from the persistent chip shortage.
- ✓ For instance, E&E related companies such as ViTrox Corporation Berhad recorded a 42.7% y-o-y increase in its revenue during the 1Q2022 (4Q2021: 16.2%). This was mainly contributed by strong sales demand for its automated board inspection (ABI) and machine vision system (MVS) products.
- ✓ Similarly, Unisem (M) Berhad mirrored the same trend, maintaining its double digit growth (1Q2022: 13.5% vs. 4Q2021: 16.4%) driven by higher sales volume, as well as improvement in average selling price (ASP).
- ✓ Malaysia's transition to endemicity phase spells a positive development for air traffic movement in the country. Prior to its border reopening, the Malaysia Airport Holding's Berhad's (MAHB) passenger traffic continued to record a stellar performance during the quarter (1Q2022: 399.6% vs. 4Q2021: 225.1%) due to the implementation of various Vaccinated Travel Lane (VTL) between Kuala Lumpur and Singapore, Bangkok, Phuket and Phnom Penh, as well as between Penang and Singapore.
- ✓ Hence, service sector also plays a major role in contributing to the economic growth in 1Q2022 amid upliftment of restrictions after two years of pandemic.

GDP growth, y-o-y%

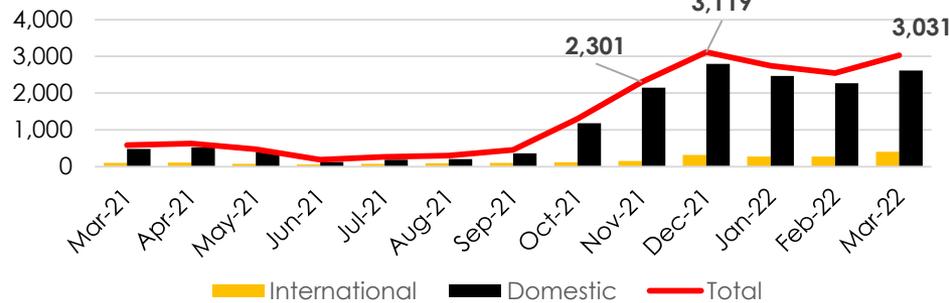


ViTrox Corporation Berhad's Revenue (RM Million)

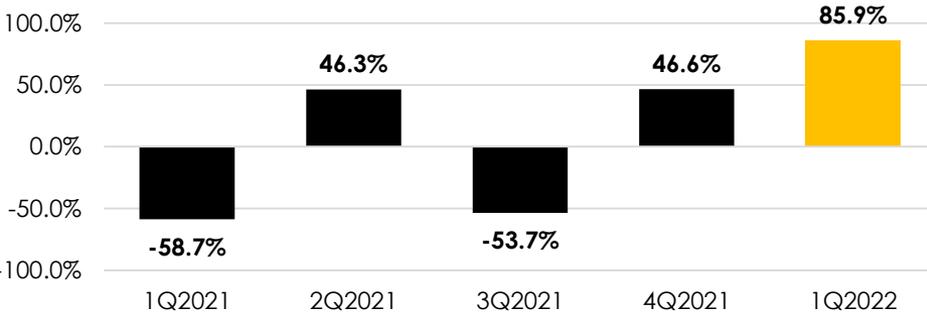


IMPLEMENTATION OF VTL HAS UPLIFTED MALAYSIA'S SERVICE SECTOR AND WOULD BOLSTER DOMESTIC CONSUMPTION

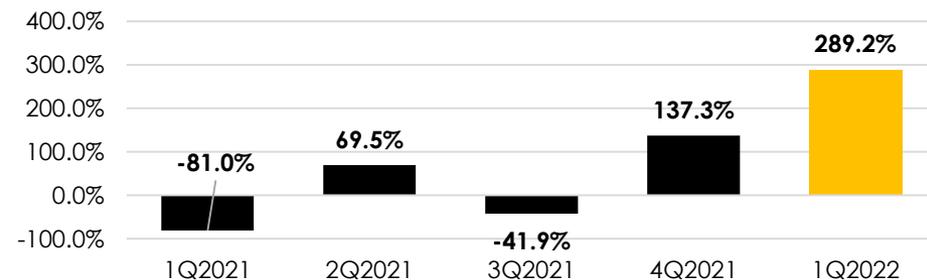
Malaysia's Airport Passenger Traffic, thousand person



IOS: Accommodation, y-o-y%



IOS: Air Transport, y-o-y%



- ✓ The VTL has resulted the surge in air passenger traffic during early 2022 (March: 3.0 million person vs. February: 2.5 million person).
- ✓ Domestic passenger has been maintaining above 2.0 million person since November 2021 amid reopening of state border.
- ✓ Additionally, international passenger also soared by 306.0% y-o-y to 406k person in March (February: 269k).
- ✓ Hence, **it has trickle-down effects to other sub-sectors** such as accommodation and transport.
- ✓ According to Singapore's Immigration & Checkpoints Authority (ICA), a total of 27,600 visitors have departed to Malaysia on the first day of the opening of the Malaysia-Singapore border.
- ✓ **In view of stronger recovery in services industry, we do not discount the possibility that actual GDP in 1Q2022 could burst our baseline projection of 4.3% to reach 5.7%.**

Sources: Bank Islam, CEIC, DOSM

PRIVATE SECTOR AND EXTERNAL TRADE ACTIVITIES WOULD DRIVE THE GROWTH IN 1Q2022

Y-o-Y%	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022F
GDP	0.7%	-17.2%	-2.7%	-3.4%	-0.5%	16.1%	-4.5%	3.6%	4.3%
Domestic Demand (excluding stocks)	3.7%	-18.8%	-3.3%	-4.5%	-1.0%	12.4%	-4.1%	2.3%	4.0%
Private Sector	4.9%	-20.4%	-4.0%	-4.0%	-0.9%	13.0%	-4.4%	2.4%	4.1%
-Consumption	6.7%	-18.5%	-2.1%	-3.5%	-1.5%	11.7%	-4.2%	3.7%	7.8%
-Investment	-1.2%	-26.1%	-10.8%	-6.6%	1.3%	17.4%	-4.8%	-3.0%	-8.8%
Public Sector	-1.8%	-11.1%	0.1%	-5.7%	-1.5%	9.7%	-2.8%	1.9%	3.2%
-Consumption	4.9%	2.2%	6.8%	2.4%	5.9%	9.0%	8.0%	4.3%	4.9%
-Investment	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%	12.0%	-28.9%	-3.8%	-1.8%
Net Exports of Goods and Services	-36.8%	-37.9%	19.2%	10.0%	0.8%	34.3%	-37.5%	2.6%	4.9%
-Exports	-7.2%	-21.7%	-4.9%	-2.1%	11.9%	37.4%	5.1%	13.3%	10.7%
-Imports	-2.7%	-19.7%	-7.9%	-3.3%	13.0%	37.6%	11.7%	14.6%	11.3%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is estimated to increase by 7.8% y-o-y in 1Q2022 (4Q2021: 3.7%).

✓ **Assumptions:**

- 1) The **Retail sales** increased by 9.4% in 1Q2022 (4Q2021: 5.0%), mainly underpinned by Non-specialized Stores (1Q2022: 14.0% vs. 4Q2021: 8.0%) and Household Equipment (1Q2022: 8.8% vs. 4Q2021: 4.2%) during the said quarter.
- 2) In addition, the **labour market** is on improvement trend, attributable to the further recovery in the domestic economy which is set to spur business activities. Hence, the loss of employment (LOE) by SOCSO continued to drop from 10,878 persons in 4Q2021 to 10,433 persons in 1Q2022. On the same note, the unemployment rate decline to 4.1% in 1Q2022 from 4.3% in the previous quarter.
- 3) Meanwhile, **Consumer Sentiment Index (CSI)** rose to 108.9 points in 1Q2022 from 97.2 points in the previous quarter driven by the improvement in current incomes and jobs following the gradual economic recovery in the country.

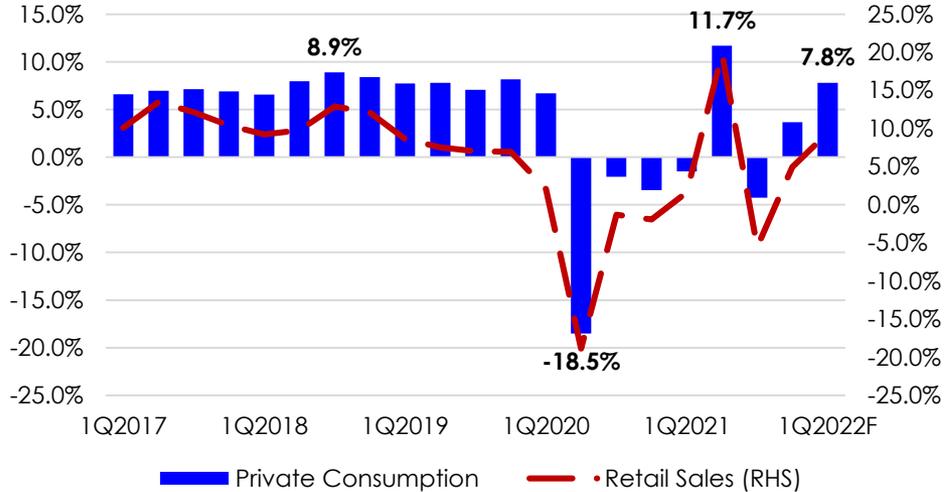
✓ On the external sector, **Exports** are expected maintain a double digit-growth of 10.7% in 1Q2022 (4Q2021: 13.3%) due to the improving global demand conditions.

✓ **Assumptions:**

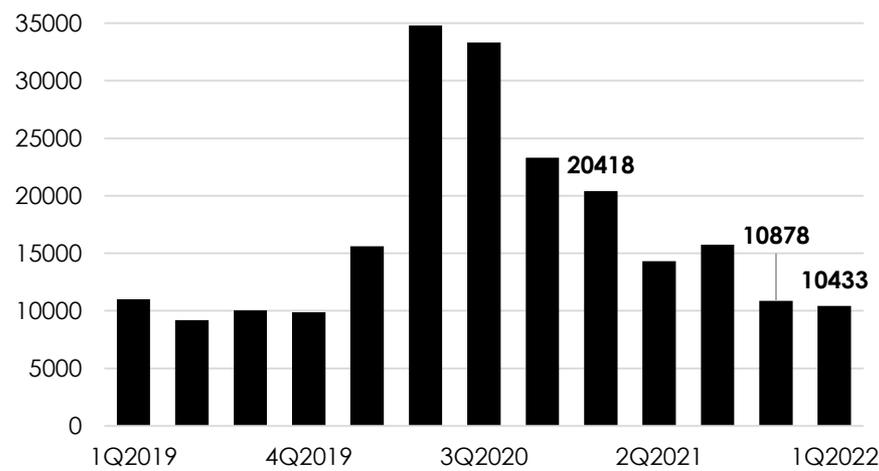
- 1) Nominal exports increased moderately by 22.2% in 1Q2022 from a 29.0% in the previous quarter.
- 2) The Global Semiconductor Sales (GSS) has been maintaining its double digit growth since January 2021 (March 2022: 23.0% vs. February: 26.2%), suggesting that Malaysia's E&E is benefitting from the still-strong performance.

DEMAND SIDE – EXPORT IS ANTICIPATED TO BE THE KEY DRIVER OF THE ECONOMIC GROWTH

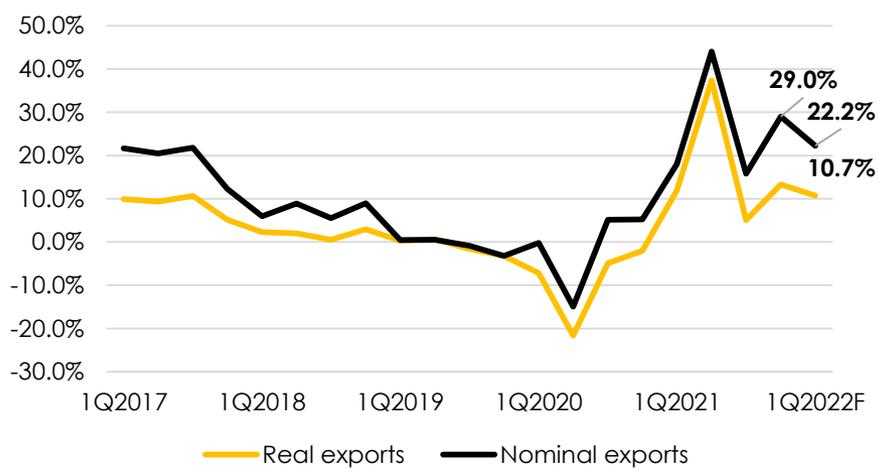
Private Consumption vs. Retail Sales, y-o-y%



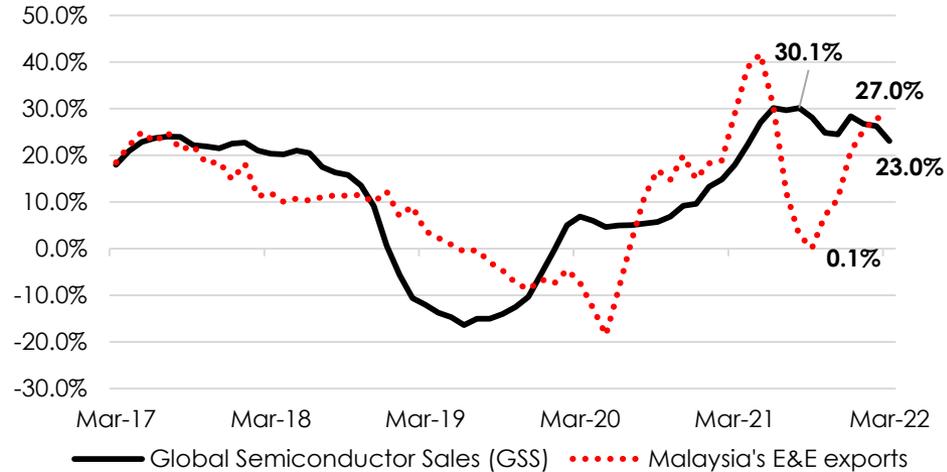
Loss of Employment (LOE), person



Real Exports vs. Nominal Exports, y-o-y%



GSS (%) vs. Nominal Exports: E&E (%) – 3 Months Moving Average (3MMA)

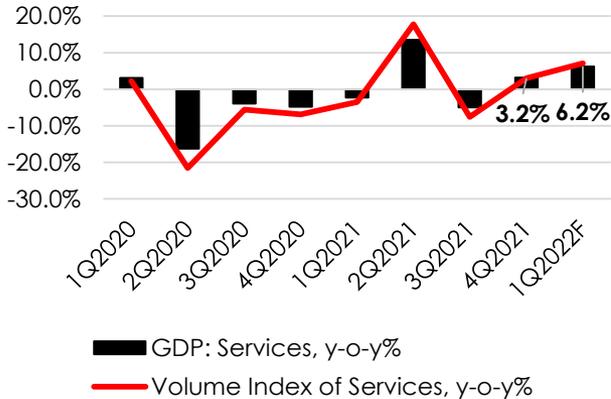


Sources: CEIC, Bank Islam
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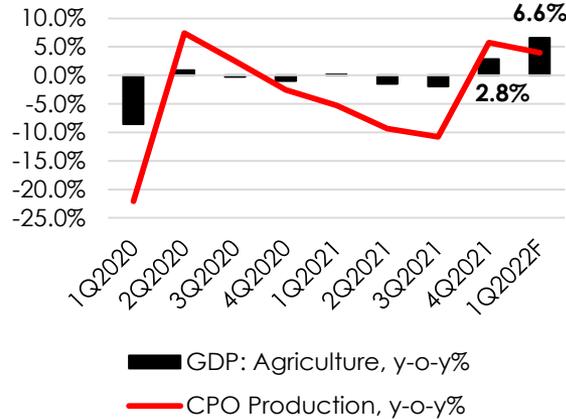
SUPPLY SIDE- SERVICES, AGRICULTURE AND MANUFACTURING SECTOR WILL BE THE PRIMARY MOVERS OF STRONGER GDP GROWTH IN 1Q2022

✓ **Reopening of the economy will elevate the services sector and boost domestic consumption.**

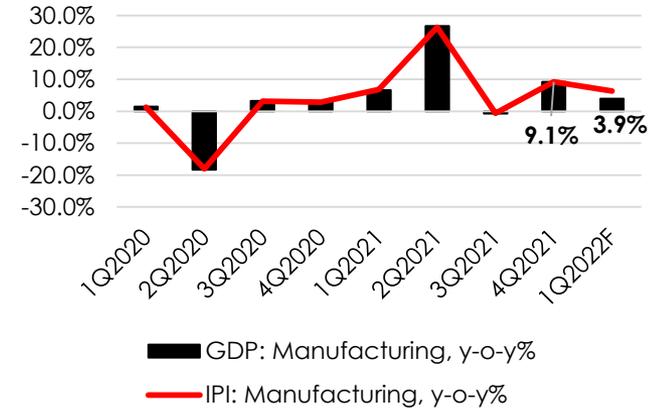
Firmer **services** sector performance amid implementation of VTL.



Agriculture sector benefited from global edible oil shortages.

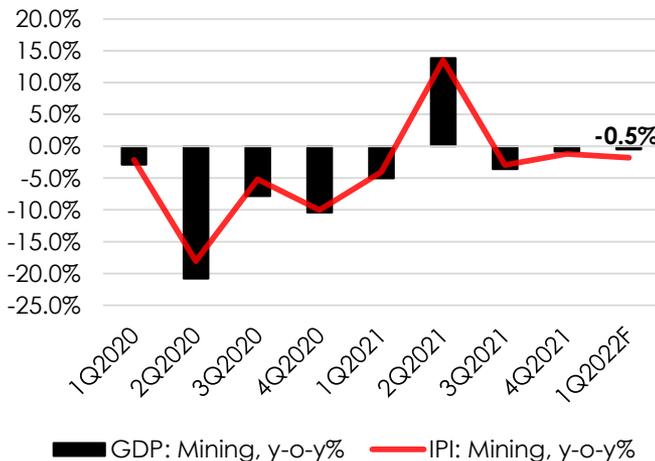


Expansionary in **manufacturing** industry supported by pent-up demand globally.

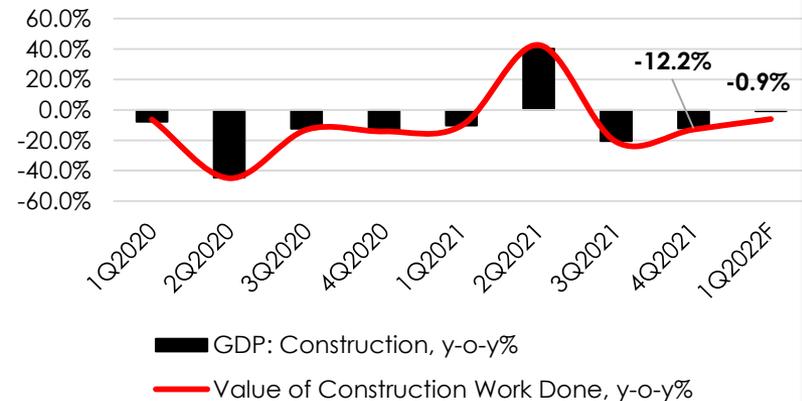


Mining and construction are likely to remain in negative level in 1Q2022 weighed by weaker output.

Mining sector to record slower contraction.



Construction to post negative print as Value of Work Done declined by 6.1% in 1Q2022 (4Q2021: -12.9%).



- ✓ We estimated the monthly real GDP for January, February and March based on the growth in Malaysia's Coincident Index from the Department of Statistics Malaysia (DOSM) and the growth in the Key Production Index.
- ✓ We derived the growth of the Key Production Index via a weighted average growth of economic indicators namely, Industrial Production Index (IPI), Distributive Trade Index and Crude Palm Oil (CPO) Production.
- ✓ The reason for using the growth of the Coincident Index and Key Production Index is due to the **higher correlation with the monthly real GDP growth at 99.5% and 93.3% respectively from Jan 2020 until December 2021.**

Correlation Matrix Between Monthly Real GDP and Coincident Index Growth:

Variables	Monthly Real GDP	Coincident Index
Monthly Real GDP	1.0000	
Coincident Index	0.9949	1.0000

Correlation Matrix Between Monthly Real GDP and Key Production Index Growth:

Variables	Monthly Real GDP	Key Production index
Monthly Real GDP	1.0000	
Key Production Index	0.9331	1.0000

Sources: Bank Islam, CEIC

- ✓ On further scrutiny, a regression analysis was carried out between the monthly real GDP growth and the growth of these two indexes. The monthly real GDP estimates obtained using the growth of the Coincident Index and the Key Production Index was then averaged to derive the monthly real GDP growth for January, February and March as shown below:

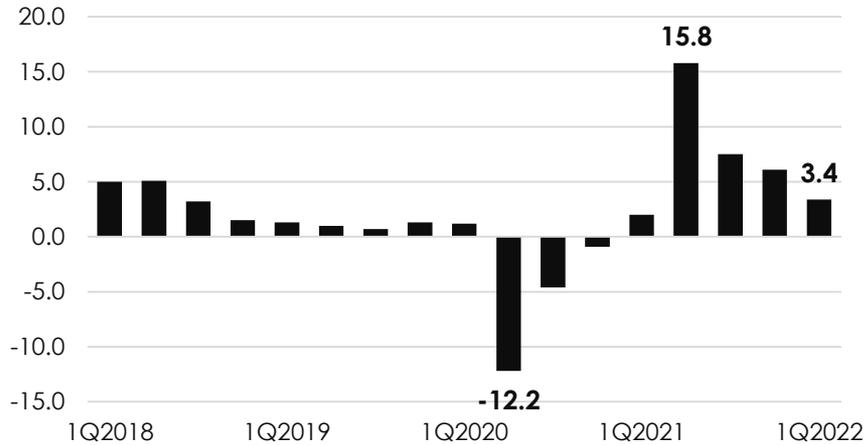
Regression between Monthly Real GDP, y-o-y% and:	Real GDP Estimates from Regression Analysis			
	Jan-22	Feb-22	Mar-22	1Q2022
Key Production Index Growth, y-o-y%	6.3%	3.5%	3.0%	4.3%
Coincident Index Growth, y-o-y%	5.7%	6.6%	2.4%*	4.9%
Average	6.0%	5.1%	2.7%	4.6%

- ✓ The 1Q2022 GDP growth derived from the average growth of the monthly real GDP growth from January to March this year was at 4.6%, which is close to our estimates based on supply and demand components of 4.3%.

* Applied Auto Regressive Integrated Moving Average (ARIMA) forecasting technique to estimate Coincident Index for the month of March 2022.

REGIONAL PEERS RECORDED POSITIVE OUTPUT GROWTH DURING 1Q2022, CONTINUING THEIR RECOVERY PATH

Singapore's GDP, y-o-y%



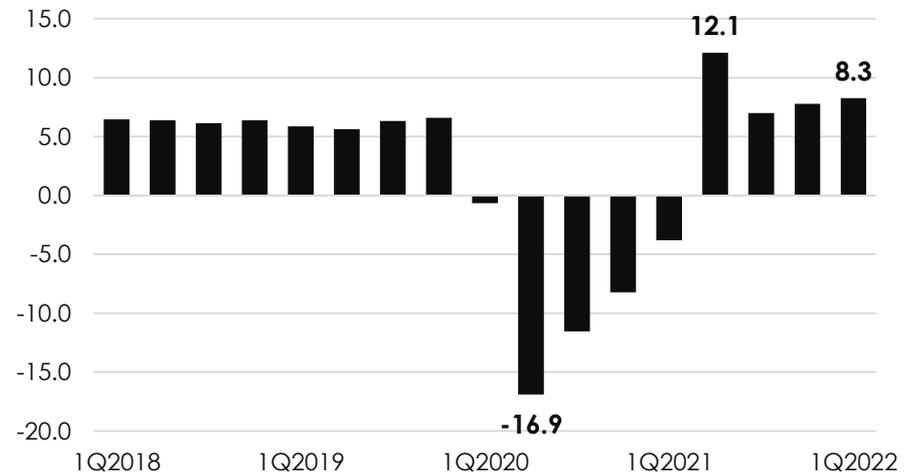
South Korea's GDP, y-o-y%



Indonesia's GDP, y-o-y%



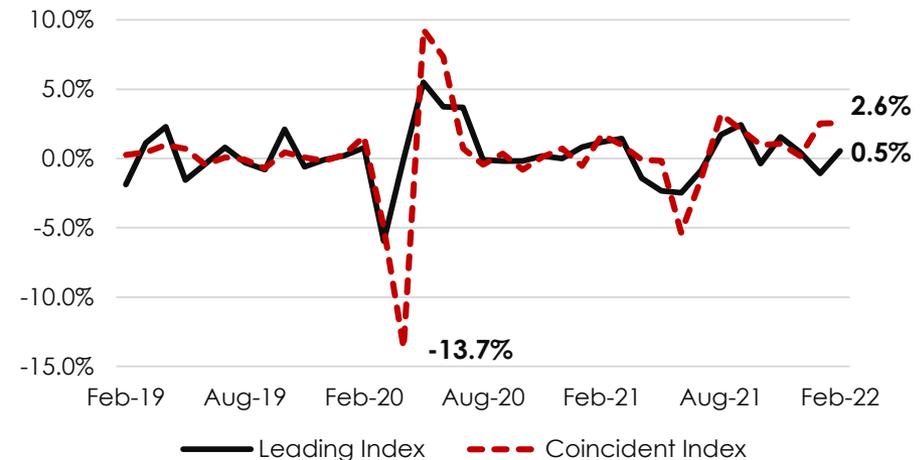
Philippines' GDP, y-o-y%



Source: CEIC

✓ **Domestic economic indicators are pointing to a positive performance** – The leading index increased by 0.5% month-on-month (m-o-m) in February (January: -1.1%), indicating that Malaysian economy is bound to keep up its recovery journey. Similarly, the current economic perspective as reflected by the coincident index edged up by 2.6% in February from a 2.5% growth previously, suggesting a healthier economic condition.

Leading vs. Coincident Index, m-o-m%



Source: CEIC

✓ **However, downside risks remain** – Russia's invasion of Ukraine has posed major challenges on economic growth and inflation expectation. Subsequently, costs of goods are expected to remain elevated driven by war-induced commodity prices and broadening higher food prices. Apart from that, China's Zero-Covid Strategy (ZCS) may also heap pressures on the global economy via prolong supply chain woes. As such, these would lead to lower output and idle production line moving forward.

✓ **All in all, we opine that our 4.3% forecasted growth for the 1Q2022 GDP is reasonable** – Continuous economic and social activities have led to the improvement in private sector and external trade. The commendable macroeconomic indicators in 1Q2022 have also stipulated Malaysia's encouraging economic prospect moving forward with high mobility is expected following the reopening of international borders commencing 1 April this year.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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